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ASIAN RICE PROBLEMS AND THE COLD WAR

Abstract

Intervention in distress situations created by burdensome crop surpluses is the latest weapon employed by the Communists in their political and economic offensive against the underdeveloped countries. The most recent such action has been the large purchase of surplus Burmese rice.

These purchases have been accompanied by Communist propaganda playing up the role of the bloc as the benefactor of the Burmese economy. Prominent Burmese leaders have reacted with expressions of deep appreciation.

Prior to 1955 no significant amounts of rice were imported by the Communist countries. On the contrary, Communist China had been exporting rice to Ceylon as part of the five-year rice-rubber agreement. But, in 1955, Communist China, the USSR, Czechoslovakia, Hungary, East Germany, Poland and Rumania negotiated agreements for the purchase of rice in Burma. Part of this rice is going to other destinations -- principally North Vietnam. The bloc rice purchases have been focused on Burma, which is "neutral" in the East-West struggle. Agreements negotiated in 1955 cover at least one-quarter of Burma's rice exports and indications are the scale of such purchases will be increased in 1956. No rice has been purchased from the other major rice exporting country of Asia, Thailand, which is aligned with the West, although offers to purchase have been made.

The Communists can move in to support the Burmese rice market at little economic cost relative to the possible political gains. The quantities of rice involved can readily be absorbed by the bloc. The consumer goods, capital equipment and technical assistance which would have to be supplied in exchange would impose no great drain on the bloc.

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I. INTRODUCTION

Rice is the principal crop and staple food of almost all countries of Asia within the arc stretching from Japan to India. Although most of the rice produced is consumed locally, foreign trade in rice plays a major role in the economies of a number of countries of the region.

Since 1953, the Asian rice situation has shifted from a condition of relative shortage to one of oversupply. Prices have slipped substantially from their postwar peaks and major exporters are plagued by surpluses and difficulties in finding satisfactory export markets.

The Soviet Bloc recently has moved into the rice market to relieve the distress of exporters as a part of its economic and political offensive in South East Asia. Questions have been raised as to whether or not the bloc's principal objectives may not be the infiltration of the economic life of the non-Communist countries, the weaning of Asian countries from the West and toward closer relations with the bloc, and the creation of dissatisfaction with East-West trade controls.

This study reviews the present rice position of Asia and examines the recent Communist efforts to exploit the situation to its own advantage, particularly in Burma.

II. THE RICE PRODUCTION AND MARKETING SITUATION IN ASIA

Rice was in relative short supply and high priced from the end of World War II through 1952. This scarcity largely resulted from the wartime and postwar dislocation of production in the rice growing regions of Asia. It was not until 1952 that Asian rice production reached prewar levels and by 1955 production still lagged behind the increase in population.

The recovery of Asian rice production has been accompanied by a substantial increase in exports. However, by 1953 Asia's rice exports were still less than half prewar (see Table 1) and rice surpluses began to accumulate in the major exporting countries of Asia.

A number of factors contributed to this situation of oversupply, of which the shift to other cereals has been particularly important. When rice was in short supply in Asia, wheat was imported on a large scale chiefly from North America. Rice imports by Asian cereal deficit countries represented only 32 percent of total cereal imports from 1951 to 1953 as compared with

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CONFIDENTIAL

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Table 1. ASIAN RICE TRADE, 1934-38 AVERAGE, 1946-50 AVERAGE AND 1951 TO 1954
(thousand metric tons, milled equivalent)

Country	1934-38 average		1946-50 average		1951		1952		1953 ^a		1954 ^a	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Burma	3,070	---	974	---	1,268	---	1,326	---	971	---	1,451	---
Ceylon	---	530	1	368	---	402	1	406	2	410	15	402
Communist China	17	704	1	227	120	20	193	---	272	---	263	---
India	277	2,160	---	564	---	941	---	734	---	193	---	678
Indochina ^b	1,320	---	112	---	333	---	226	---	202	---	358	---
Indonesia	---	281	1	197	---	409	---	766	---	358	---	259
Japan	---	1,757	---	176	---	792	1	979	5	1,079	---	1,429
Thailand	1,388	---	871	---	1,612	---	1,428	---	1,336	---	1,183	---
All other	<u>2,918</u>	<u>1,470</u>	<u>143</u>	<u>849</u>	<u>447</u>	<u>1,256</u>	<u>1,355</u>	<u>1,273</u>	<u>246</u>	<u>1,345</u>	<u>273</u>	<u>758</u>
Total	8,990	6,910	2,103	2,381	3,780	3,820	3,530	4,158	3,034	3,385	3,543	3,526

NOTE In some cases data are for crop years rather than calendar years.

a. Preliminary.

b. 1934-38 average for associated States of Laos, Cambodia and Vietnam; 1948-51 data for Cambodia and South Vietnam only.

Sources: 1934-38: FAO, Commodity Report: Rice, December 1954; and
1946-54: USDA, Foreign Crops and Markets, July 4, 1955.

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83 percent in 1934-38. Even though export availabilities had increased considerably by 1952-53 the shift to imports of wheat was not readily reversed. The continued high price of rice relative to other cereals, favored imports of wheat despite a marked preference for rice in most Asian diets. Important also in the reduced demand for rice has been the significant expansion of cereal production in traditional deficit areas like India. The burden of rice surpluses was most aggravated in Burma where the government marketing agencies strongly resisted the downward trends of cereal prices.

At the present time a surplus of rice beyond normal stock levels exists in Burma and, though to a much lesser extent, in Thailand. The United States is also faced with record rice stocks. The Asian rice surplus position improved substantially in 1955 from the heavy carryovers in 1953 and 1954. This was the result of deliberate and successful efforts in Thailand to reduce rice stocks and less successful disposals in Burma. A significant improvement in the quality of rice in stock has also occurred with disposals of low grade, old crop rice.

The rice market in Asia (as in the world as a whole) is definitely a buyers market at this time, and is likely to remain so for the next few years. Favorable crops, expanded acreage, and greater supplies throughout the area in both exporting and importing countries, emphasize the fact that the competition for export markets will be intense.

The rice trade is of major importance to Burma and Thailand. It yields 70 to 80 percent of Burma's export earnings and about 50 percent of Thailand's. Government revenue in both countries depends heavily on the rice trade. In Burma the Government markets the rice through a State Agricultural Marketing Board and profits from the transactions become Government revenue, in Thailand various levies such as export taxes accrue to the government.

III. THE RICE TRADE BETWEEN COMMUNIST AND NON-COMMUNIST COUNTRIES

In volume terms trade in rice between Communist and non-Communist countries has not been large. Until 1955 the only significant shipments were from Communist China to Ceylon within the terms of the rubber-rice trade agreement. Small exports of rice from Communist China to Japan, India, and Hong Kong also have taken place, and Iran has exported rice to the Soviet Union in exchange for sugar.

Since mid-1954, however, there has been a marked increase in Communist Bloc interest in the rice trade. This has taken the form, principally, of Bloc commitments to buy rice from Burma, at a time when Burma anxiously seeks markets for its rice surplus. At the same time rice continues to be a part of the Ceylon-Communist China rubber agreement, although the rice element of the agreement has been modified. Communist China has made sales of rice to Japan and is reported to be seeking other Far Eastern markets,

CONFIDENTIAL

and the rice trade has become a problem in Soviet-Iranian relations.

A. Ceylon-Communist China Rice-Rubber Agreement

The Ceylon-Communist China trade agreement covering the five-year period from 1952-53 to 1956-57 provided for the exchange of 50,000 long tons of Ceylonese rubber annually for 200,000 tons of Communist Chinese rice. The prices were to be negotiated each year and Ceylon received a premium for its rubber and paid favorable prices for the rice.

At the time the agreement was negotiated rice was still in short supply and Ceylon therefore gained both the advantage of an assured supply of rice and a guaranteed market for rubber at a price premium. Communist China, for its part not only secured needed supplies of rubber but at the same time managed to breach the United Nations embargo on sales of strategic materials to Communist China. Communist China apparently considered these economic, military, and political benefits of sufficient importance to warrant diverting rice from domestic supplies which though inadequate would not be seriously affected because of the small quantities involved.

With good crops in 1953-54 and 1954-55, and increased availabilities abroad, Ceylon's rice supply position improved to the point where carryovers were high. As a result Ceylon sought to reduce its purchases of rice from Communist China. An additional consideration was the signing of an agreement to buy Burmese rice which is preferred in Ceylon because of its quality. However, Ceylon was still interested in selling rubber to Communist China. The prime stumbling block was Communist China's professed inability to bridge with sterling the increased gap between the cost of rubber and the lower returns from rice sales. At the same time, however, Communist China recognized that a failure to reduce rice exports to Ceylon could lead to a reduction of Ceylon's imports from Burma, thus complicating the friendly relations which the Communists seek to develop in Burma. As an alternative it was suggested that the rice-rubber bilateral agreement be broadened to include Burma which would supply rice to Ceylon, and in return would take rubber which would be transferred to Communist China. This proposal did not materialize however and the final arrangements for the 1955-56 period provided only that Communist China would reduce its exports of rice to Ceylon, with Burma making up the difference and increasing its imports from China. In addition, Communist China has been using rice purchased under its bilateral agreement with Burma to make shipments to Ceylon.

B. Burma's Rice Trade with the Sino-Soviet Bloc

During the postwar period of rice shortage Burma had no difficulty finding markets for rice at high prices. But beginning in the 1953-54 marketing year surpluses of rice began to back up in Burma. In the face of falling prices, increasing stocks of inferior quality rice, and inadequate storage facilities, Burmese hesitancy to reduce export prices further aggravated the situation. As carryovers rose and sales prospects declined the

CONFIDENTIAL

CONFIDENTIAL

- 6 -

Burmese began to anxiously cast around for export markets, and entered into trade agreement negotiations with almost all Communist Bloc countries.

The first agreement negotiated was with Communist China which agreed to purchase 150,000 long tons of rice in the 1954-55 marketing year. In return Burma was to receive 80 percent of the value of the rice in specified goods (20 percent to come from Eastern Europe) and 20 percent in open account sterling. The ability and willingness of Communist China to supply goods wanted by Burma may be questioned. However Burmese purchasing missions have been to China and it is rumored that textiles and steel materials will be purchased. Burma's current anxiety to dispose of rice is such that she may be willing to accept goods without strict attention to commercial considerations. There is also some evidence that Burma is considering taking goods for possible resale in other markets.

Further sales of rice to Communist China by Burma are under active negotiation. There is no reason to believe that an agreement will not be negotiated for 1956.

In 1955 Burma also negotiated a number of agreements for the sale of rice to the European Communist Bloc countries. In each case the agreement covers a period of three years with the quantity of rice to be determined separately each year. For 1955 these agreements covered from 250,000 to 300,000 tons of rice. The USSR agreed to take 150,000 to 200,000 tons, Czechoslovakia about 25,000 tons, Hungary 20,000 tons, East Germany 50,000 tons, and some rice was to go to Rumania. Not all shipments under these agreements will be completed before the end of the year, partly because of transportation bottlenecks.

Under the various agreements negotiated at least one-fourth of Burma's estimated rice exports in 1955 will go to the Sino-Soviet Bloc. Not all of the rice is destined to go to the original purchasing country. Some and possibly most of the Soviet Union's purchase is going to North Vietnam, part of Hungary's purchase has been resold in French West Africa, and some of Communist China's purchases are going to Ceylon and North Vietnam.

Negotiations for sales of rice to the Bloc in 1956 are under way and involve greater quantities than in 1955. Burma is seeking to raise its sales to the Soviet Union to 300,000 tons, and to Czechoslovakia to at least 50,000 tons. A three-year trade agreement has been signed with Poland which agreed to purchase 50,000 to 60,000 tons of rice in 1956. The Burmese are convinced of the need to encourage sales of rice to the Bloc and, are willing to accept technical assistance in partial return. Although there is no reason to believe that the European Bloc purchases of rice are intended to cover urgent domestic needs, the short-run outlook is for a continuation and expansion of Burmese exports to the Bloc. This trade will help Burma maintain a high level of exports and to resist or at least limit the downward pressure on rice prices which might otherwise result. The prices

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received from Bloc countries for the substantial quantities of rice in the 1955 contracts were roughly equivalent to prices under other contract sales. The dependence of Burma on rice sales to the Bloc is significant and increases the willingness of Burma to foster closer economic relations with the Bloc.

Most of the trade agreements include the sale of other materials by Burma, lead, zinc, copper matte, and rubber being most prominent. For the first seven months of 1955 exports to the Bloc were 7.3 percent of Burma's total exports compared to less than one percent in 1950-54. Shipments for European Bloc account did not become significant until toward the end of 1955, so that the percentage for the entire year will probably be higher.

C. Other East-West Trade in Rice

In recent years Iran has shipped rice to the Soviet Union in exchange for sugar. This rice trade is small but provides a market for surplus rice produced in the Caspian region of Iran. Until recently there has been no indication that the Soviet Union considered this trade as anything more than normal commercial intercourse. However, since Iran's adherence to the Bagdad Pact, Soviet purchases of Iranian rice have ceased. Iranian authorities look upon this as political retaliation and have prepared a government rice purchase and storage agreement to assist producers who would otherwise suffer from the Soviet action.

There is little rice trade between the Bloc and non-Communist countries outside of formal bilateral agreements. Communist China has exported rice to Japan and has indicated that rice could be a part of expanded trade between the two countries. Rice also moves from Communist China to Hong Kong and Macao.

At various times Communist China has made unsuccessful overtures to supply rice to Indonesia in return for raw materials, especially rubber. There have also been indications that Communist China seeks to buy rice from Thailand, and the Soviet Union and Czechoslovakia are reported to have offered to buy Thai rice in 1952 and 1954. So far Thailand has not agreed to enter into trade agreements with Bloc countries.

IV. EXPLOITATION OF THE RICE TRADE BY THE COMMUNIST BLOC

The above described rice dealings very probably have yielded political if not economic gains to the Communist Bloc although the exact extent of these gains is difficult to assess. The fact that Ceylon's Rubber-Rice contract with Communist China prevented Ceylon from receiving US economic aid, undoubtedly created some anti-American sentiment. On the other hand the prime minister of Ceylon was the most outspoken defender of the West at the Bandung conference in April 1955. Bloc purchases of rice from Burma have been accompanied by a marked increase in Communist political and economic activity intended to weaken Burma's ties with the West. These

CONFIDENTIAL

CONFIDENTIAL

- 8 -

purchases have been recognized in thankful expressions by Burmese leaders. The rice deals also have been used in Communist propaganda directed toward both the public and officials, playing up the role of the Bloc as a benefactor of the Burmese economy and painting a glowing picture of the possible future gains from closer relations between the Bloc and Burma.

The rice trade with Burma also has given the Bloc countries the opportunity for introducing Communist goods into the Burmese economy. This may serve to increase Burma's economic dependence on the Bloc, although to date the flow of Bloc goods to Burma has not been great. The way has been opened, however, for the introduction of Communist officials into Burma on an expanded scale.

There is evidence that the Bloc's economic interest in trade with Burma extends beyond rice, which is not particularly in demand for European Bloc consumption. There is greater interest in other Burmese goods, especially such things as zinc, lead, tungsten, and rubber. At any rate these materials have been tied into Bloc agreements to purchase rice.

The political and economic vulnerability of Burma offers an opportunity for Communist penetration which the Sino-Soviet Bloc can seek to exploit. The Communists, when the opportunity presents itself, can move in to support the Burmese rice market at little economic cost relative to the possible political gains. The amounts of surplus commodities involved are small and can easily be absorbed by the bloc. The capital equipment and technical assistance which would have to be supplied in exchange would not impose any significant drain on the bloc economy.

Bloc economic penetration of Thailand through means of the rice trade is also a possibility. The Government of Thailand so far has stayed clear of deals with the Bloc. Thai marketing problems have been less acute than in Burma. Furthermore, Thailand is more definitely aligned with the West and with an anti-Communist government is not as fertile a field for Communist penetration. Whether or not this would be the case if rice marketing problems increased and the Thai economy jeopardized is not known. Attractive Bloc offers at such time could be a source of difficulty to the Free World. This stage may be close at hand, fragmentary reports indicate increasing Bloc overtures to Thailand and prospects of Bloc rice purchases in 1956.

US surplus disposal of food grains which is alleged to be depressing the Asian rice market has been disturbing US relations with rice exporting countries. The US surplus disposal programs have been decried by Burma and are a source of some dissatisfaction in Thailand. The grievances engendered by surplus disposal programs are real and subject to Communist exploitation. Although recent sales of rice to Asia by the US have been small, the Asian exporters fear the surplus overhanging the market. In addition, US disposal of surplus wheat in Asia is believed to cut into the rice market.

CONFIDENTIAL

CONFIDENTIAL

- 9 -

In this connection the role of Japan as Asia's most important importer of rice and major potential consumer of Burmese and Thai rice is significant. Japan has become an important purchaser of Burmese and Thai rice since the war because its major prewar sources, Korea and Formosa, no longer are rice exporters. At the same time, in contrast to other rice deficit areas, Japan's production of rice has not increased over prewar levels. The impact that Japan's import requirements could have on the Asian rice exporters has not been fully felt, however, because the US entered the rice market as a major exporter and because Japan has been substituting wheat imports for rice (the US supplied rice in the early postwar period through the GARIOA appropriation and at the present time is supplying it through PL 480 and ordinary commercial sales).

Asian rice marketing problems probably stem much less from US disposal programs than from other factors. The unwillingness of some rice exporters to reduce prices, the inefficiency exhibited by Government controlled marketing authorities, increased cereal production in importing countries, and the high proportion of low grade rice produced, have all contributed to the current marketing difficulties. The economic impact of US disposal programs on the rice exporting countries is not easy to assess within the confines of this report. To the extent that US surplus disposal increases the marketing problems of rice exporters the opportunities for further Soviet incursions through the rice trade may be increased. Soviet assistance geared to easing the rice surplus problems of Burma (and possibly Thailand) is a fruitful talking point for communist purposes. The US is in a weak position to take direct measures to relieve foreign marketing difficulties in a crop which is in surplus domestically, and faces the accusation that the US surplus contributes to those difficulties.

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